

When You Start with Nothing

Ideally, everyone would like to start their new venture with a solid and reliable supply of money, preferably obtained by winning the lottery or inheriting a vast sum from a previously unknown relative. The reality is that many people start their businesses with nothing. No savings, no big gifts from relatives, and no lucky breaks. This is bootstrapping.

Bootstrapping is hard work, but it's also good for your business. It teaches you valuable lessons in how to run the business on a shoestring budget, preparing you to make good financial decisions in the future.

Bootstrapping tips

Sandy Weinberg, Professor of Entrepreneurship at Muhlenberg College, offers the following advice for bootstrapping a business:

- Realize that some businesses are easier to bootstrap than others. Service businesses, especially homebased ones, are easier to run leanly than manufacturing businesses, which require equipment and machinery.
- If possible, run your business part-time in the beginning. It's less risky if you can get your business going in the evenings and on weekends. "Many retail businesses have started part time," says Weinberg. "However, it may be impossible to start a retail business part time because you have to be open at key times to attract consumer traffic."
- Running your business part-time could also pose ethical dilemmas with your current employer. A programmer employed by a software manufacturer, for example, may not be able to start a part-time systems integration company because those services compete with those of his or her employer. Consider the legal implications of starting part-time, advises Weinberg. To avoid potential problems, consult an attorney.
- Keep overhead low. Work out of your home as long as possible. "Conserve the capital you have," says Weinberg. Don't be in a rush to rent an office.
- Negotiate time rather than price. Rather than expending the effort negotiating reduced prices from vendors and suppliers, try to get payment extensions. "Instead of paying bills in the traditional 30 days, ask for 45-, 60-, or even 90-day terms," says Weinberg. "It's an opportunity to stall payments so you can build a cash flow and working capital."
- Maximize your resources. You don't necessarily need top-of-the-line equipment and cutting-edge technology. Take advantage of that 10-year-old truck and five-year-old PC until they no longer serve a useful purpose. Only replace equipment and technology when it's absolutely necessary. Even then, buy used rather than new equipment.
- Stay focused. Bootstrapping isn't easy. It requires discipline, diligence, and hard work. It's unreasonable to expect everything to fall effortlessly into place. Be prepared for the bumps in the road. No matter how tough things get, stay focused on the mission at hand: successfully starting your business. (Bob Weinstein, "Walk This Way: Lessons in the Fine Art of Bootstrapping," *Entrepreneur*, October, 1998.)

Watch your money

Eric Tyson, the author of *Small Business for Dummies* (IDG Books Worldwide, 1998), warns that many entrepreneurs invest their own money without taking stock of their financial situation. "Before you pour all available cash into your business, do some number-crunching," he advises. Determine what you need, and

Bootstrapping stories

When Greg Easley and Kelly Moulton started their web-based company Bottle Rocket, Inc., they couldn't afford to develop their sophisticated online games without outside financing, but they couldn't attract investors without the product. They launched their company through careful budgeting. The partners set up an office in Easley's apartment, lived frugally, and plowed all their money back into the company. Sometimes, they were frugal about the wrong things. "Instead of hiring an attorney to handle legal issues," Easley says, "we figured we could do it ourselves. But we eventually wound up spending more."

The partners are glad they bootstrapped. "Bootstrapping is scary," says Easley, "but in retrospect, it's worth it. During those early months, we learned how to manage [a company] and work with clients. It was a test run, allowing us to iron out our kinks and learn how to use the resources we had. If we had gone out and raised a million dollars, about 40% of that would have gone to covering our mistakes. A valuable lesson for any entrepreneur is learning how to function on a shoestring. That's what bootstrapping teaches you." From "Walk This Way," by Bob Weinstein. *Entrepreneur*, October, 1998.

As a student at Hobart College, Ian Leopold envisioned a student guide to the Hobart experience, loaded with practical information about sports, student life, and off-campus attractions. Leopold founded Campus Concepts, investing \$32 in order forms and business cards. With the \$16 left over, he opened a checking account. Then Leopold and his sales force, students on commission, pitched retailers. "It cost \$50 or \$100 to advertise in the book," he recalls. The first annual *Unofficial Student Guide to Hobart College* turned a 50% profit on \$3,000 in revenues.

While he worked for a Cleveland company, Leopold continued to nurture Campus Concepts, transplanting the Hobart model to other institutions. Sales expanded to \$75,000 by the end of 1987. Rapid growth brought cash-flow crunches. "If it weren't for credit cards," he says, "I wouldn't be in business." By 1990 revenues reached \$250,000.

These days the company publishes its freebie student guides for 70 colleges in 35 cities, with a total circulation of one

then see if your personal resources, typically savings and equity, can cover it after your living expenses are met. The idea is to determine how much of your personal assets you can comfortably put into your business while still keeping some in reserve."

Some don'ts

Don't sell your life insurance policy or dip into your pension or retirement account to fund the business.

Don't finance your business using personal credit cards--if you can't pay off the debt, you may face personal bankruptcy.

Reflections on cash flow

Budgeting basics ([audio file](#))

Managing your company's cash ([audio file](#))

Managing cash in a high-growth startup ([audio file](#)) ([pdf transcript](#))

Coping with setbacks ([audio file](#)) ([pdf transcript](#))

million. It boasts 4,000 advertisers -- from local pizza joints to Sony, Gillette, IBM, and Colgate. "It shows," he says, "what you can do with \$48 when you work hard."

From "Bootstrapping," by Christopher Caggiano and Jay Finegan. Inc. Magazine, August 1, 1995.